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February 27, 2004

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, TW-A325
Washington, DC 20554

***Re: WC Dkt. 03-228, Sec. 272(b)(1)'s "Operate Independently" Requirement
for Sec. 272 Affiliates***

Dear Ms. Dortch,

In separate meetings on February 26, 2004, the undersigned, Steve Earnest, and Bob Gray of BellSouth met with Chris Libertelli of Chairman Powell's office, Johanna Mikes Shelton of Commissioner Adelstein's office, and Dan Gonzalez of Commissioner Martin's office. BellSouth expressed positions already on the record in this proceeding and explained previously filed cost savings information. All material used during the meetings is attached.

This notice is being filed pursuant to Sec. 1.1206(b)(2) of the Commission's rules. If you have any questions regarding this filing please do not hesitate to contact me.

Sincerely,



Mary L. Henze

cc: C. Libertelli
J. Shelton
D. Gonzalez

BELLSOUTH

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February 3, 2004

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, TW-A325
Washington, DC 20554

***Re: WC Dkt. 03-228, Sec 272(b)(1)'s "Operate Independently"
Requirement for Sec 272 Affiliates.***


Dear Ms. Dortch,

Please find attached BellSouth's analysis of potential cost savings that would result from lifting the prohibition on BOC's performing Operations, Installation and Maintenance services for Sec. 272 affiliates. This analysis was originally filed on September 15, 2003 as part of the proceeding on BellSouth's request for forbearance of the OI&M restriction (CC Docket 96-149). BellSouth is now submitting this analysis in the record of the above noted proceeding.

The analysis indicates that BellSouth estimates it will save approximately \$1.9 million annually if the OI&M restriction is lifted. BellSouth would like to clarify that this estimate reflects only those current OI&M costs that would be immediately affected by a change in the OI&M rules. BellSouth's Sec. 272 affiliate spends \$6 million annually on OI&M, however, most of this is performed by vendors under long term maintenance contracts and thus would not be immediately affected by a change in OI&M rules. Other OI&M activities are naturally included in the lease arrangements for transmission facilities and cannot be separately identified.

This notice is being filed pursuant to Sec. 1.1206(b)(2) of the Commission's rules. If you have any questions regarding this filing please do not hesitate to contact me.

Sincerely,


Mary L. Henze

cc: C. Shewman

**BellSouth Petition for Forbearance
Operation, Installation and Maintenance**

September 12, 2003

BellSouth OI&M: Part 1

BSLD Organization & Structure

BellSouth Long Distance, Inc. ("BSLD") is presently organized into four main business units, which are determined by product offering and consist of:

- Complex Business
- Mass Market
- Wholesale; and,
- Provision of Services to BellSouth affiliates.

Prior to the deployment by BSLD of any fixed assets, management took into consideration whether it was more cost effective to build or lease those assets. The end result was that fixed assets were deployed only if profitable; thus, complex data, and voice and services to BellSouth affiliates were extended nationally via leasing arrangements. In BellSouth's nine state region, a combination of leased transport facilities and access facilities are used to interconnect the BSLD switches for mass market and wholesale services. As a part of its network facilities, BSLD owns eight switches and associated network elements, e.g., ATM nodes and SS7 network elements.

BSLD has a sister company, BellSouth Carrier Professional Services, Inc. ("BCPS"), which provides certain network support functions for BSLD. The core network functions performed by BCPS include: planning & engineering, capacity management, translations, trouble management support, central office field support, international quality routing support, network operations centers (NOC) vendor management, and technical subject matter expert support. Of these functions, the management of the NOC and the functions it performs are most affected by the OI&M restrictions.

The NOC and functions it performs are provided for BSLD pursuant to a contract by a non-BellSouth vendor. The functions performed by the NOC are primarily operating, installation and maintenance functions, which are discussed in more detail in Part 2.

In addition, to the NOC, there are BSLD field technicians at each of the BSLD switching sites. These technicians perform 'hands on' maintenance, local surveillance and alarm monitoring, repairs, testing, trunk provisioning, on all equipment at the switching sites.

In summary, since BSLD has made business decisions to own fewer facilities than it leases, its OI&M costs, and the potential savings from OI&M forbearance, are lower than they most likely would be if BSLD had invested more extensively in its own facilities. Nonetheless, BellSouth reiterates that the test for forbearance is not whether there are "substantial" cost savings, but whether or not the criteria of Section 10 have been met.

BellSouth OI&M: Part 2

Cost & Savings Analysis

A. INTRODUCTION

Section 10 does not require the proof of substantial cost savings in order to obtain forbearance. Section 10 provides three criteria that must be met to obtain forbearance – none of the three include costs savings. It is not the amount of cost that could be saved that is relevant in this instance – rather, it is the fact that costs exist as a direct result of regulations that are redundant and/or unnecessary.

In response to the Commission's request, however, BellSouth provides the following analysis of the costs associated with complying with the Operation, Installation & Maintenance (OI&M) prohibition.

There are two main factors that determine the costs of complying with the OI&M prohibition and the potential savings that may accrue should the prohibition be lifted. The first is the organization and network strategy of the 272 affiliate(s) and the second is the length of time that the relief will be in effect.

The network strategy of the 272 affiliate governs the level of costs because OI&M is performed on the facilities that the affiliate owns or controls. If a Bell Company 272 affiliate elects to construct and directly operate an extensive long distance network, its OI&M organization must also be extensive and its costs significant. If a Bell Company 272 affiliate, on the other hand, opts to lease or outsource most of its network operations, then primary responsibility for OI&M will reside with the owners of those facilities. While the 272 affiliate will have indirect OI&M costs, it will not require a large OI&M organization of its own.

BellSouth Long Distance, Inc. (BSLD) and BellSouth Carrier Professional Services, Inc. (BCPS), the 272 and 272-compliant affiliates respectively, are the BellSouth corporate entities directly affected by the OI&M prohibition. Their organization and network strategy follows the second approach (See Part 1).

The second factor that determines the level of potential savings or benefit from forbearance is the length of time between the grant of forbearance and the sunset of Section 272. BellSouth will have reached the 272 sunset date in all nine of its states by the end of 2005. Optimistically, assuming a grant of forbearance by year-end 2003, BellSouth stands to achieve OI&M savings for two years. The potential savings, or value of forbearance, will be lower if the petition is granted after 2003 but could become much greater if Section 272 is not allowed to sunset at the end of 2005.

B. HISTORICAL OI&M COSTS

The OI&M restriction directly affected how BSLD established its business and thus its start-up costs. These "historical" or "sunk" costs cannot be recovered by grant of forbearance but they remain valid indicators of the burden that the restriction has imposed on BellSouth. One of the largest sunk costs driven directly by the OI&M restriction is the cost of purchasing or developing separate Operational Support Systems (OSS).

BSLD Operational Support Systems

The OI&M prohibition prevented BSLD from taking advantage of the extensive OSS systems and expertise already developed and operational in BellSouth Telecommunications (BST). Many of BST's systems could have been readily adapted to meet the needs of the long distance business at a considerably lower cost. Instead, BSLD had to procure from outside sources or develop internally several major systems that it otherwise could have shared with BST.

As a result of the OI&M restriction, BSLD purchased or developed the following Operational Support Systems at a total start-up cost of approximately \$20 million:

- *Trouble Management System* - used to send, receive and track customer and network troubles to maintenance personnel.
- *Open View Network Node Manager* - surveillance system for network & switching elements.
- *Signaling Monitoring System* - monitor the SS7 (Signaling System 7) "A" Links and provide detailed call information, which is used to analyze troubles and detect fraudulent calls.

- *Inventory Management System* - a provisioning and engineering system used to generate service orders and track the addition, deletion and changes to trunks that connect network elements.

Only one system, the system which aides BSLD in making off-network routing decisions and managing subscriber fraud, would have been necessary for BSLD to purchase regardless of the OI&M prohibition.

In addition to the one time start up cost of these OSS, they all require regular upgrades and modifications which result in significant ongoing operating costs. For example, the Inventory Management System costs approximately \$1.5 million per year to operate and maintain. Unfortunately, these ongoing costs will continue even after forbearance is granted and are thus not included in the calculation of potential savings, below. Despite the fact that forbearance would allow the BSLD and BST OSS systems to be shared, it is technically and operationally very difficult to do so once they are established. Any efficiencies and savings to be gained by sharing BST and BSLD OSS systems are likely to be very far in the future as current systems become obsolete and are replaced.

C. ONGOING OI&M COSTS

BSLD's organization and network strategy has helped contain on-going OI&M costs. Not only does BSLD lease/outsources most of its network facilities, it also has outsourced most OI&M functions. Primary responsibility for BSLD OI&M resides with BCPS which manages contracts with vendors that actually perform OI&M functions. The costs associated with a single primary contract account for the majority of BSLD OI&M costs. The total annual cost of this contract is now \$3,311,000. The current functions included in BSLD's primary outsourced OI&M contract and cost breakdown is as follows:

- *Network Data Collection Tools/OSS*. Ongoing cost of operating vendor owned OSS systems. \$1,609,000.
 - Network Node Manager –receives all outputs (alarms, logs, and operational measurements) from all network elements and stores them in a relational database for alarm presentation and analysis by maintenance personnel.
 - Signaling Monitoring System - monitors the SS7 (Signaling System 7) "A" Links and provides detailed call information which is used to analyze troubles and detect fraudulent calls.

- Infrastructure Provisioning System– mechanizes and automates the translation process for routing, charging and trunking inputs into BSLD switches.
- *24 x 7 Network Surveillance, Control & Analysis: Monitoring all network elements on 24x7 basis and take the necessary action; including alarm monitoring for network outages. \$712,000*
- *Customer Fault Repair: Trouble report management triggered by a customer report, which includes troubleshooting and diagnosis of problems once a trouble has been reported. \$225,000*
- *Switch Translations: This consists of computer programming within the switch for the routing of traffic, which, depending on the need for the translations, could be part of the trunk installation process or part of routine maintenance. \$125,000*
- *Network Software Administration – Upgrades & Patch Administration: This consists of proactively upgrading software on network elements on a regular schedule (e.g. yearly or semiannually) to prevent potential problems. It also includes loading fixes in software to correct defects. Software administration can fall into either installation or maintenance depending on the need for the software load. This does include the actual testing of the software prior to loading but only the physical work required to load the software into the network element. \$69,000*
- *Performance Management & Reporting: This consists of the management of Service Level Agreements and the review of agreed upon metrics for the network to perform at specified levels. It includes the developing of detail methods & procedures (M&Ps) for network element analysis, corrective action plans and the documentation of service failure investigations or chronic maintenance problems. \$94,000*
- *Network Traffic Management & Measurement: This consist of real time traffic management of voice and data traffic to ensure that network blocking does not occur or is within acceptable engineering parameters and that network congestion is minimized. It also includes the collection of traffic data for network analysis purposes. \$129,000*
- *Digital Cross Connect Alarm & Network Provisioning. Network outage and*

system operation alarms designed specifically to monitor digital cross connect systems. \$320,000.

- *Security Management.* Includes development, implementation and monitoring of all physical and virtual security functions such as firewalls and password administration as well as building alarm monitoring. Management of internal telemetry network used to monitor all network and security functions. \$28,000.

D. POTENTIAL OI&M SAVINGS

The most significant potential impact of OI&M forbearance would be the opportunity to integrate the functions now performed by the primary OI&M vendor into existing BST or BSLD operations. Given the opportunity to share OI&M resources with BST, BSLD anticipates that it would be able to terminate this multi-million dollar contract in its entirety. While some of the costs will be assumed by BST and BSLD, BellSouth estimates that integration would result in an annual savings to the Corporation of \$1,900,000 or a total savings over the two year relief period of \$3,800,000.

Functions that could be absorbed by BSLD are: Switch Translations; Digital Cross Connect Alarm & Network Provisioning, and Security Management. Under the current outsourced contract, these functions cost \$473,000. BellSouth estimates that approximately \$300,000 could be saved annually by integrating these functions into BSLD.

Functions that could be integrated into existing BST network operations centers are: Network Data Collection Tools/OSS; Network Surveillance, Control & Analysis; Customer Fault Repair, Network Software Administration, Performance Management & Reporting, and Network Traffic Management & Measurement. Under the current outsourced contract, these functions cost \$2,838,000. BellSouth estimates that approximately \$1,600,000 could be saved annually by integrating these functions into BST.

These estimates of savings are conservative because they include only the avoided cost of the functions as performed by the OI&M vendor. They do not account for all potential organizational efficiencies that could eventually be realized as a result of integration.